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Mortgage Bankers Association of America

The biggest drone in the American hive

[Chicago]

[1922]

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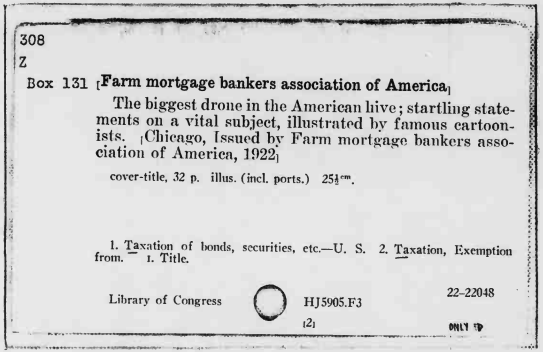

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Box 131 [Farm mortgage bankers association of America]
The biggest drone in the American hive; startling statements on a vital subject, illustrated by famous cartoonists. [Chicago, Issued by Farm mortgage bankers association of America, 1922]
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THE BIGGEST DRONE
IN THE AMERICAN HIVE

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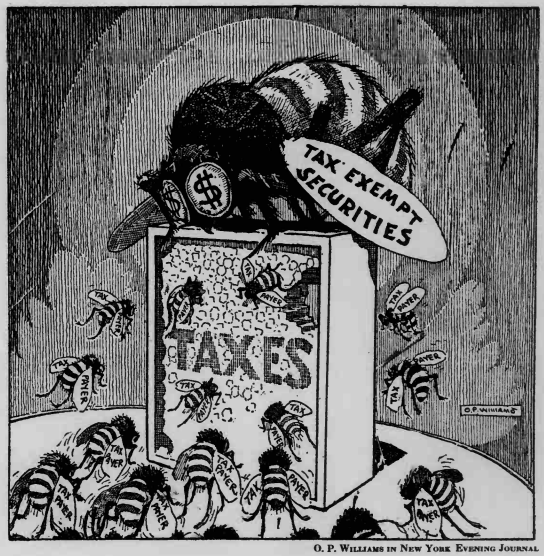

O. P. Williams in New York Evening Journal

STARTLING STATEMENTS
ON A VITAL SUBJECT—

ILLUSTRATED BY FAMOUS CARTOONISTS

JAN 1 1 1935

"Lincoln's startling declaration that this country could not continue to exist half slave and half free may be paraphrased today by saying that this country cannot continue to exist half taxed and half free."

—Ex-President Harrison at Union League Club, Chicago, February 22, 1898, in an address on "The Obligations of Wealth."

WHAT THE PRESIDENT THINKS OF IT

In his message of December 6, 1921, President Harding said:

Many of us belong to that school of thought which is hesitant about altering the fundamental law. I think our tax problems, the tendency of wealth to seek non-taxable investment, and the menacing increase of public debt—Federal, State, and Municipal—all justify a proposal to change the Constitution so as to end the issue of non-taxable bonds. No action can change the status of the many billions outstanding, but we can guard against future encouragement of capital's paralysis, while a halt in the growth of public indebtedness would be beneficial throughout our whole land.

INTENTIONAL SECOND EXPOSURE

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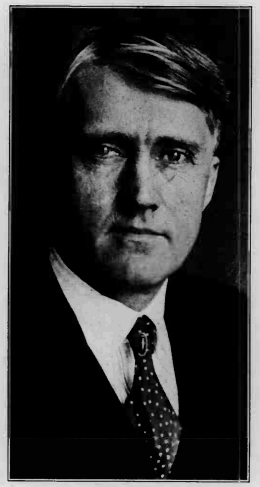
HOWARD SAYS FARMER GAINS BY ABOLITION OF TAX EXEMPTION



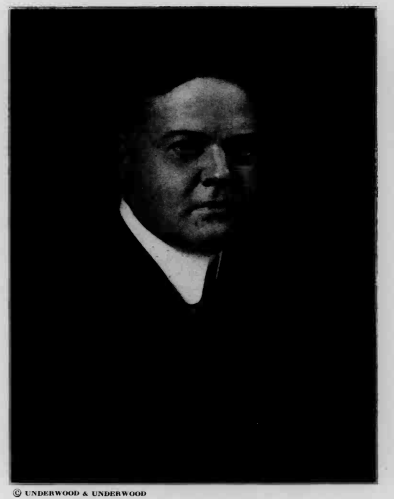
President J. R. Howard of the American Farm Bureau Federation says: "There has been an apprehension on the part of a number of farmers regarding the effect which a law or constitutional amendment making all bonds taxable would have upon the bonds issued under the Federal Farm Loan Bank Act.

"The lowest estimate which has been made by competent authorities regarding the outstanding tax-exempt bonds, Federal, State, Municipal and others, places the amount at from 16 billion to 20 billion dollars. Other authorities have estimated these bonds as high as 40 billion to 50 billion dollars. A reasonable estimate would indicate that at the present time they would total 20 billion to 25 billion dollars. There is no way of determining exact amounts.

"But, tax-exempt bonds are rapidly increasing and unless soon checked will more than equal the values of all farm properties in the United States, including lands, buildings, live stock and machinery. These tax-exempt bonds are property. Being tax-exempt, they throw additional taxation burdens upon other classes of property. When the amount of tax-exempt bonds equals the value of the farm lands of the nation, it means that every acre of farm land will be carrying approximately a double taxation.

"The farmer is certainly as much entitled to tax-exempt securities as anyone else, but if all tax exemptions could be done away with and the farmer's bonds placed on equal basis with other bonds, he would be a gainer thereby, and not a loser."

HOOVER ATTRIBUTES RAILROADS' TROUBLES TO TAX EXEMPTS



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"Surplus capital is pouring by hundreds of millions monthly into tax-free securities and foreign loans and yet our railways are unable to finance the most moderate of construction programs," said Secretary Herbert Hoover to the Inter-State Commerce Commission last February. He was analyzing the fundamental reasons for the failure of the railroads to resume equipment. He attributed it to loss of confidence in railways as an investment and to the competition of tax-free securities.

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BIGGER PROFITS DOING NOTHING, SAYS CHAS. M. SCHWAB

Charles M. Schwab declares that he could retire from active business, re-invest his money in tax-exempt securities, and treble his income. He gives that as an illustration of how big tax burdens stifle initiative. Hearings are now being held by the Ways and Means committee of the House on the proposition to prohibit the issuance of any more tax-exempt bonds, and it is probable that that refuge of tax-harassed individuals will be removed in the not distant future.

—Pendleton (Ore.) Tribune.

We Are All Paying Tax-Exempt Bondholder

Tax-exempt securities are competing so heavily with industrial, railroad and public utility securities that it is necessary for those who operate private business to pay exorbitant rates of interest in order to secure capital. The drain is so heavy that it has stopped development in many lines. Until the federal constitution is amended to place all new issues of securities on a parity so far as the taxability of income is concerned the tax exempt securities will continue to get the money, And the tax-payer who is not fortunate enough to be exempt must pay all the tax bills, including interest and bond principal, besides having been denied the use of capital he needs for his own business. Truly we are working for the bond owner, who no longer needs to toil or spin, for he escapes taxation and we must pay all the costs of government and pay him besides.

—Porterville (Cal.) Messenger.

Seligman Urges Equality for Securities As Basis for Nation's Prosperity

Prof. E. R. A. Seligman, a high authority on taxation and former president of the American Tax Association, as well as the author of textbooks on the subject, estimates the amount of untaxed securities in the United States at 30 billion dollars, on which the federal government obtains not a dollar of revenue.

The federal government last year issued no bonds, but states and municipalities are reported to have issued upwards of a billion dollars of these exempt securities, the greatest quantity ever issued in one year. Tax free securities, therefore, are increasing at the rate of a billion a year, and are not likely to be less with the great national good roads movement in full career.

There are a few defenders of tax exemption, but they do not now include any important officials at Washington. The last three Secretaries of the Treasury are for a constitutional amendment permitting taxation of public securities.

It is not favorable to the country's progress industrially or in the creation of new wealth that its advancement is principally in purely public improvements which are not producers of new wealth. Sewers, roads, bridges, handsome new schoolhouses and other products of public bonds help the production of new wealth, but do not directly create new wealth. When private industries stagnate because of a lack of fresh capital at low rates of interest, good roads will not get anywhere. The objection to 30 billions, increasing at another billion a year, of tax-free securities is that they soak up new capital needed for industrial expansion and growth.

—The Topeka Daily Capital.

Loss is Larger Than Gain

Professor Seligman said to a congressional committee:

"It is the lender and not the borrower who secures the chief benefit from tax exemption.

In my opinion, the Federal government ought not to issue any more tax-exempt bonds. It ought not to have issued them during the war, and it ought not to issue any more now, chiefly for the reason that what is gained on the one hand is outweighed on the other in dollars and cents. But something else is lost which is of far more importance, namely, the awakening of suspicion and the growing feeling on the part of many in this country that we are creating a conflict between social classes. And that is a thing which a democratic government ought not to develop."

AND GOING UP A BILLION HIGHER EVERY YEAR!

A BAD CONDITION

McCutcheon in Chicago Tribune

Withdrawal of tax exemption on government, municipal and other classes of bonds is urged in resolutions adopted by the Wisconsin Bankers Association at its annual convention. Tax exemption has worked to the detriment of farm mortgages and other classes of necessary investments, it was set forth.

—Chicago Journal of Commerce.

Tax Exempts Stifle Industry—Withhold Capital—Cause Unemployment—Stop Nation's Progress

The business depression can be cured, or at least further ameliorated by prohibiting future issues of tax-exempt bonds and reducing surtaxes enough to encourage new enterprise, says A. J. Johnson & Company, members of the Stock Exchange, in a special review on taxes and their effect on industry.

Tax-free bond issues, together with heavy surtaxes, might almost be called the two assassins of American business, this firm states. Either one, it declares, is bad enough alone, but the combination of the two tends definitely and strongly to kill productive enterprise. The review sets out:

"This is the time for business men to study economic conditions as they never studied them before, to the end that corrective legislation may be enacted to relieve business depression and solve the unemployment.

"The extortionate surtaxes so work upon the timidity of capital as to render wealthy men unwilling to undertake new business; and the tax-free municipal and other bond issues provide an asylum where timid capital can go and draw interest without doing its duty toward the nation. This duty is, of course, to create business; or, in other words, to augment production, commerce and employment; but duty with risk looks much less attractive to a careful investor than safe neglect plus 4 per cent.

"How many of us have given any thought to the fact that if emissions of tax free bond issues were to continue increasing at the present rate for another three years, they would absorb every cent of new capital in the United States. Such issues, including those of municipalities, counties and States, have shown an average annual increase of 42½ per cent for the past three years; and this is in comparison not with the extra small volume of municipal bond issues in 1918, but rather with the average volume for five years ended with 1917.

"Unproductive uses of capital kills business in a way which is plainly to be seen. The first thing that any new enterprise accomplishes must always be to employ labor, and the wage payments create business by going into the hands of the retail dealer, wholesaler, jobber, manufacturer, and so on, without limit. But funds put into municipal and county bonds employ but few, and often engage them wastefully. If, for example, the $1,300,000,000 put into tax free bonds during 1921 had been invested in trade and production, it probably would have given employment to about 220,000 idle workers."

—*New York American.*

Slow Poison for American Business—Banker Confesses His Own Guilt

The rich men are not paying their part of the taxes. They don't have to pay them—naturally they don't pay them. The taxes of this country are borne by the men with fortunes of $100,000 and less. The men with fortunes above that are not paying their part. Tax exempt securities enable them to evade payment and they do it. It is wrong. It is slow poison to the entire business of this country. It should be stopped, this legalized form of tax dodging. Until it is stopped we can't get back to normal.

All the foregoing was said by a gray-haired banker at a meeting of Middle West bankers recently. He said that he had some hundreds of thousands of dollars in tax exempt securities, and that he was one of the legalized tax dodgers who were shifting their obligations to the Government to the shoulders of men financially less able to bear them. And he wondered why farmers, why bankers, whose business has been hurt badly by the withdrawal of money to invest in tax exempt securities, did not take action against this evil.

—*Woodsfield Ohio Sentinel.*

FOLKS DO SAY THOUGH THAT UNTIL THE MOTHER-IN-LAW CAME TO LIVE WITH THEM, THEIR FAMILY LIFE WAS PERFECT.
HE HASN'T BEEN HOME TO SEE HIS FAMILY FOR A YEAR.
SO THAT'S WHERE THE OLD BOY'S BEEN SPENDING HIS EVENINGS IS IT?
EXCESS PROFIT TAX
INDUSTRIAL SECURITIES
TAX FREE SECURITIES
OLD MAN INVESTED CAPITAL
DING

DING IN DES MOINES REGISTER

Kansas Bankers Oppose Legalized Draft Tax Dodgers

Resolved, that this convention is opposed to any legislation to encourage legal tax dodging by permitting the transformation of taxable property into tax-exempt property, and that we are therefore opposed to the enactment of any new tax-exemption laws.

—*Kansas Bankers Association.*

Adopted May 16th, 1919.

HE'LL NEED A DIFFERENT GUN TO GET HIM

Landowners—Householders—Feed the No-Tax Elephant Billion Dollars Yearly

The amount of untaxed bonds in the United States on which the Government obtains not a dollar of revenue is estimated at 30 billions.

These untaxed billions penalize the farmer with a heavier tax on his land; the railroads and all public service corporations with a heavier tax on their property and equipment; the manufacturer with a heavier tax on his plant; the storekeeper and householder with heavier taxes on their property, all of which adds greatly to the cost of the service they give, or to the product they sell the consumer.

The country must get rid of its tax-free white elephant, by constitutional amendment and the refunding of existing tax-exempt securities, or be prepared to pay more and more taxes, even if economizing administrations should close half our public institutions to reduce expenses.

—*Capper's Weekly, Topeka, Kan.*

NEEDS TREATMENT FOR "EXEMPTION"

Let the Old Goose Die

"TAX-EXEMPT SECURITIES were once a golden egg, but the goose that laid them is now seriously ill," remarks Collier's. Yes, and it might be well to let the goose die, or to see that it stays pretty sick until that happy time when there shall be no more income taxes to pay. When wealthy men take their money out of productive enterprises to invest it in non-taxable securities it means that business is crippled and that the rest of us must pay more taxes.

—*Tulare (Cal.) Register.*

Tax Exemption Bleeds Business, Hamstrings Enterprise, Cuts Off Capital from Industry

It has been the theory of States and Congress that tax exemption implies no loss to the public because exempt securities will sell at a proportionately higher price and will produce a correspondingly lower income. * * *

But it is becoming more widely understood that an important factor was overlooked in this reasoning. This is the fact that free capital in the United States is a limited quantity. Not everybody has income to loan to American industries for their development. * * * It is the great incomes which cannot be consumed in living expenses which supply the fresh, new capital from day to day and year to year upon which business enterprise and growth are dependent.

And it is precisely these great incomes that lap up the tax exempt securities. * * *

Taxation is high and income taxation increases in rate with the size of the income. * * *

It is in this way that exemption of billions of securities from taxation is bleeding business of new capital, raising interest rates for capital and hamstringing enterprise accordingly. * * *

By exempting the highest grade of securities from all taxation, State and Federal, government has deliberately cut off from American industrial enterprise its natural source of capital and is starving industry.

Abolishment of tax exemption is not a moral question, therefore, as abolishment of a special privilege of the wealthy, so much as it is an economic question of first class importance. The practice has grown so much lately as to bring its logical effect clearly in view. Until tax exemption assumed such magnitude that the exempt securities became sufficient to absorb the entire surplus of the incomes of great estates and great fortunes, the country did not feel the ebbing of the stream of annual new capital. It sees the stream now at a low-water mark for generations, and the Secretary of the Treasury at last feels called upon to issue a warning against continuance of a policy so damaging to every interest in the land.

—*Topeka (Kansas) Daily Capital.*

Farmer and Worker Pay Interest on Tax-Free Bonds

There are now more than $30,000,000,000 in tax free bonds stored away in the vaults of the rich, and if the Federal and State governments, counties, cities and improvement districts continue to issue bonds of a similar character at the present rate, the wealth of the Nation will be tied up in tax-free securities and then who will pay the bills? Scheming to escape taxation is a regular occupation with a large number of citizens who find it easier to clip coupons than to assume the worries and responsibilities of industry, and tax-free bonds are very attractive to this class. Not only do they escape paying their just share of government expenses, but an even greater wrong is done by keeping their money out of industry where it would be productive of something besides interest.

If bonds were made to bear their just share of taxation, perhaps fewer would be issued, thus giving the Government and its various subdivisions a chance to catch up. The people of this country are now paying interest on more than $87,000,000,000 every year. This debt includes all classes of bonds and money borrowed for all purposes, exclusive of mortgages on homes in cities of less than 30,000 population and money borrowed at banks in small cities and villages. If it were possible to arrive at the real total of the indebtedness of the United States, including the debts of individuals and corporations on which interest is collected, it is doubtful if there is money enough in the entire country to pay the interest at one time.

There is more than one good reason why there should be no more issues of tax-free bonds. *Farm and Ranch* is for the amendment without exemptions of any kind.

—*Farm and Ranch, Dallas, Texas.*

ALBERT T. REID IN KANSAS CITY STAR

Investment Bankers Resolve Against Tax-Free Securities

Resolved, it is the sense of this Board that the Investment Bankers Association of America advocate the adoption of an amendment to the Constitution of the United States empowering on the one hand the Federal taxation of the income from future obligations of the States and their political subdivisions and on the other hand the taxation of future obligations of the United States by the States and their political subdivisions, in both cases with proper safeguards limiting such taxation.

—*The Investment Bankers Association of America.*

Adopted by Board of Governors October 6th, 1920.

President of Real Estate Board Says We Are Becoming Nation of Renters One-Third of Wealth Paying Nearly Three-Fourths of Tax

One real estate development company in Detroit has $150,000 invested in 10 different homes. That money is absolutely frozen and cannot be released because of the company's inability to obtain mortgages or discount land contracts at a reasonable rate.

This trussing up of funds, cited by Harry F. Menard, president of the Detroit Real Estate board, is considered by him one of the most poisonous off-shoots of the growing investment in tax-exempt bonds. He put the present house shortage in Detroit at from 25,000 to 35,000.

"Today the only person who can build is the person with 50 to 60 per cent of the necessary capital in his hand," Mr. Menard says.

"For a year and a half it has been impossible to get any mortgage money. It also has been absolutely impossible to discount a land contract except at 25 to 30 per cent. In the old days we used to pay 10 to 12 per cent, and thought that a very generous figure.

"Billions invested in tax-free bonds today are escaping the payment of all income taxes. In the last annual report of the Secretary of the Treasury it was stated that the highest brackets for the surtax had passed the point of productivity, and the only consequence of any further increase would be to drive possessors of large incomes more and more to the investment in wholly exempt bonds.

"The ease with which exempted securities can be sold is a constant invitation to extravagance and prodigality in government. All interests today are supporting a program of economy and the curbing of governmental expenditure, and then contradicting themselves in the next breath by opening the gate to a safe hiding place for men of big incomes by permitting the growing issuance of tax-exempt paper.

"In spite of the necessity of stimulating home ownership, a necessity recognized by our national government by the formation of the United States Housing corporation and by states and municipalities in various efforts to encourage the building of homes, a condition prevails, and is allowed by constitutional and legislative enactment, which mitigates directly against the government's acknowledged thought as expressed in the organization of the housing corporation.

"We are more and more becoming a nation of renters. By wide margin, more than half the people in the state of Michigan are living in houses not their own today. To the owner of a modest home the high tax, added to his other burdens, is the last straw. It is cheaper to rent than to own, is becoming a too generally accepted fact. Real estate while representing 35 per cent of all wealth in the country, is paying from 65 to 70 per cent of all taxes, and probably a vast proportion of that burden is passed on to the public in the form of a big rent.

"It cannot be expected that capital will find its way into real estate investment, with its attendant burden of construction and administrative complexities, to say nothing of attendant depreciation, at a decidedly less net return than can be enjoyed by the simple expedient of buying municipal or governmeni securities. Real estate cannot stand the competition, and the result is inevitable."

—Detroit Free Press.

More Money in Tax Exempts Than Nation's Business

You know what "Tax-exempt" securities are? They are state and municipal bonds, issued to the tune of tens of thousands of millions. They pay the investor as high as 6 per cent interest and more, and the owner pays not a cent of income tax on these investments.

Naturally men prefer those exempt bonds, paying no income tax or other tax, bearing no risk to any investment in industry. No wonder an expert tells you, "More money is invested in tax-exempt securities than in the nation's business."

That explains why so many factories are closed, so many men out of work in America. Why should a man risk his capital hiring men in industry to make 10 or 15 per cent profit, and give half or three-quarters of it back to the government in income tax, when he can buy perfectly safe bonds draw his 5 or 6 per cent, and pay the government not one cent?

—Lebanon (Ind.) Reporter.

MURPHY IN SEATTLE POST INTELLIGENCER

Leaves Thirty-Five Millions Mainly Tax Exempts

The banker, Jacob H. Schiff, left an estate valued at nearly 35 millions. The net taxable income from the whole of it worked out at scarcely 1½ per cent per year. The bulk of his estate was in tax-exempt bonds because the surtaxes on other investments would have left him a lower rate of return than did the bonds. Schiff was a business man. Tax schedules did not tax him, but only forced his money out of business uses into governmental uses. He had to invest his money, not with those who build up industry, but with those who spend the proceeds of state, city, and national bond issues. The information contained in such wills as that of Jacob H. Schiff is disquieting to those who want to "make the rich pay all the taxes."

—Collier's, The National Weekly.

Only Constitutional Amendment Will Stop Leak

Estimates as to the amount of tax-free securities outstanding vary from 10 to 30 billion dollars. H. C. McKenzie, tax expert of the American Farm Bureau Federation, estimates the amount to be about 17 billions. This does not include about 15 billion dollars' worth of Liberty bonds which are subject to Federal but not State and local taxation.

The loss in taxes to the government from the exemption of this vast amount of wealth is estimated to be about 600 million dollars a year. This does not include the loss to states and local taxing bodies.

Some farmers fear to have the issuance of tax-free securities stopped for fear it would raise the interest rate on federal farm loans, This is quite likely to happen, to a small degree at least. But the total amount of farm loan bonds outstanding is only a little over half a billion—only a small fraction of the total value of tax-free securities. The small gain that comes to the farmer from lower interest on federal farm loans is much more than offset by his having to pay his tax and the other fellow's too.

The money that goes into tax-free securities cannot be used for business or farming. That is why we see cities and states carrying on extensive and often extravagant programs of public improvements at times when farmers and business men can hardly get the credit necessary to keep their business going.

In a recent letter one of our readers, J. E. Jensen of Iroquois county, Illinois, says:

"I just read that a New York syndicate has bought 45 million dollars' worth of four and a half per cent securities in one lump. Why is it that securities like this sell above par while farmers have to pay six or seven per cent for money?"

The facts about tax-free securities given in this article answer Jensen's question. It is harder than it ought to be to get money for business and farming, interest rates and taxes are higher, all because of the flood of tax-free bonds that is crowding other investments out of the market and enabling rich investors to escape paying taxes.

The only way out is through a constitutional amendment. This will take time, and will not affect the tax-free bonds now outstanding. But they will gradually be paid off, and if we stop issuing more we will be going in the right direction instead of piling up more trouble. Such an amendment should be adopted at the earliest possible moment.

—The Prairie Farmer, Chicago.

Resolve for Equitable Taxation a Plea for Fair Play

Resolved, that this conference is unalterably opposed to the exemption of interest from mortgages from income taxation under either Federal or State laws, and that this conference is of the opinion that salaries of all public officials and the interest on future issues of Federal, State or Municipal obligations should be subject to income taxation.

THE NATIONAL TAX ASSOCIATION
Adopted at Thirteenth Annual Conference, September 6-10, 1920.

Tax-Free Securities Foster Business Slackers, Stagnate Building, Farm, Industrial, Mine and Railroad Progress

Strong arguments for the elimination of all tax-exempt securities and a plea for the institution of a national tax on sales were presented to the Realtors' Bureau of the Denver Civic and Commercial Association by Frank N. Briggs, president of the Interstate Trust Co., of that city. "There are two classes of citizens," said Mr. Briggs, "who escape taxation in whole or in part: those who come under tax-exemption laws and those who are known as tax dodgers." Both classes he characterized as slackers and shirkers, one under sanction of unjust laws and the other in violation of laws.

"Withdrawal of capital from active business and development investments and tying it up in tax-exempt securities," he declared, "is the most important phase of the question.

"With so much wealth as we now have in the United States, why is it that there is such a scarcity of money for building purposes, farm operations and development, manufacturing enterprises, mining and railroad construction? And why are rates of interest so high for such loans as are required for these things?" he asked.

Quoting from Louis T. McFadden of Pennsylvania, who introduced a bill in Congress for the repeal of tax-exemptions, he said: "It is a matter of common knowledge that the diversion of the funds of wealthy estates and individuals from real estate mortgages to tax-exempt bonds has seriously handicapped the entire building program and industry of the country. The resulting situation is acute, especially in housing, largely because of tax exemption."

—News Record, N. Y. City.

CORWACK IN THE PRAIRIE FARMER

Should Be No Privileged Class

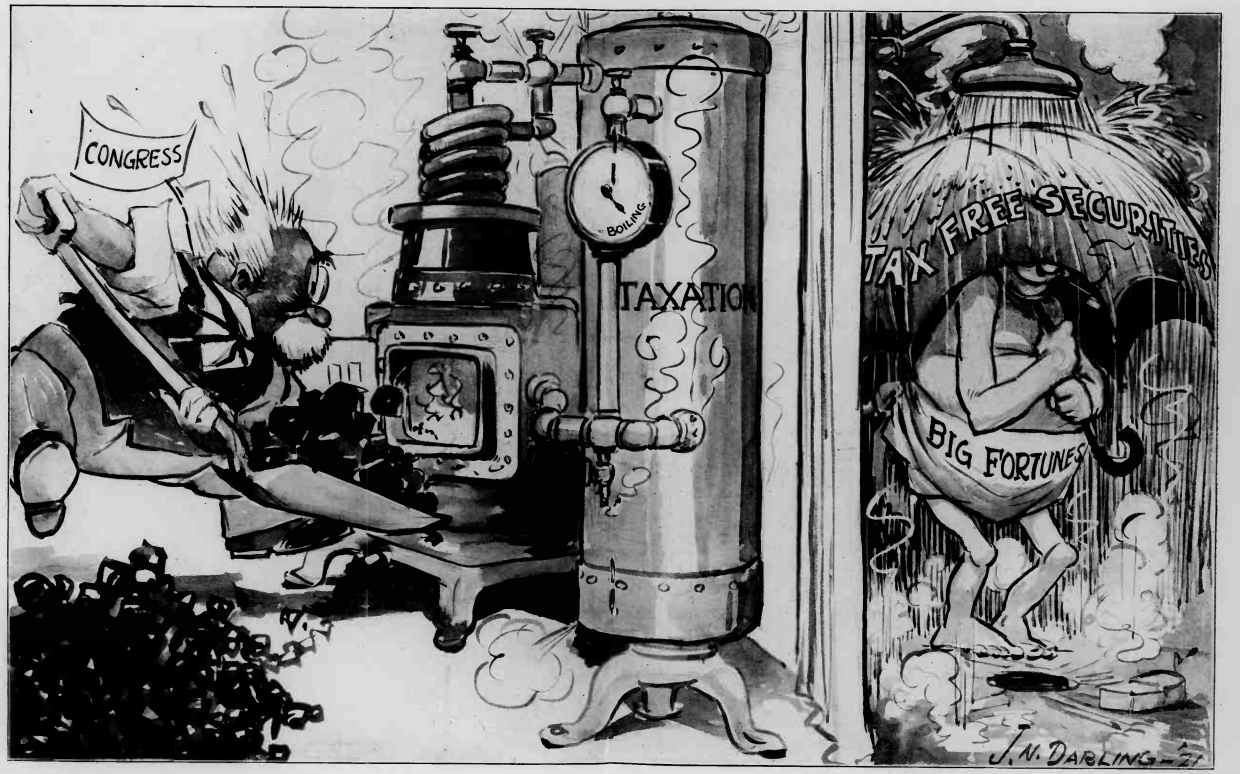
So far as known to the committee, all of the prominent authorities on the subject of taxation favor the amendment. The United States is the only one of the great nations that permits such a condition to exist.

Tax exemptions create a grave danger to our social system and form of government. No principle of taxation is more generally accepted today than that taxes should, as a rule, be levied in accordance with ability to pay and all citizens should pay in the same manner. The present condition violates every rule based upon these principles, and while we seek to create, as far as possible, equality in taxation, we find that the Constitution makes it impossible. There should be no privileged class under our Government, but a special privilege is granted to those who invest in tax-exempt securities. This situation is the ground of just complaint and creates discontent and prejudice against people of large means who use a lawful method to lessen their taxes.

—House of Reps., 67th Cong., Report No. 969.

ALL THAT NICE HOT WATER GOING TO WASTE

Take Away His Umbrella and the Bath Will Do the Work



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Demand for Constitutional Amendment Popular

The tendency on the part of owners of large fortunes to invest their capital in non-taxable bonds, in order to escape paying the heavy federal surtax on incomes, has created a popular demand for an amendment to the Constitution of the United States authorizing the taxation of income derived from all future issues of municipal or state bonds.

If the present surtaxes on great incomes are to be continued as part of the national American revenue system, the effects of a policy that promotes investment in tax-free bonds, instead of industry, transportation, and commerce, will make the submission and ratification of a constitutional amendment almost a certainty.

One beneficial result of the abolition of future issues of tax-exempt bonds will probably be a material decrease in borrowing by municipalities and states. The ease with which immense sums could be secured by the sale of long-term, non-taxable obligations has been a factor in promoting governmental extravagance, and the prospect for higher interest rates for loans should have a good effect in cutting down public expenditures, and thus lessening the burden of destructive taxation.

—*Christian Science Monitor, Boston.*

Jim Hill's Widow's Income Doubled by Investing in Tax Exempts Business Men and Farmers Will Pay

Louis W. Hill, former business adviser for Mrs. Hill, testified that beginning in 1916 and continuing until 1919, he disposed of heavily taxed securities held by his principal, substituting therefore tax free holdings and in this way increased her annual income from $365,000 to $730,000 a year.

Here is a concrete example of the working of the tax exempt bond evil anybody can understand at a glance. In a single instance, in the east of a personal fortune which is surpassed by several in Michigan which have been similarly invested, a little shrewd readjustment has withdrawn $365,000 annually from the reach of the tax gatherers.

But the money thus lost to the public treasuries must be found somewhere so the burden is shifted to business enterprise, to people who are obliged to work for their livings, to the widow with a cottage instead of a palace.

If the case of the estate of Mrs. Hill were an isolated one the matter would not be worth mentioning. But unfortunately it is typical of hundreds of other cases. A good many billions of dollars are tied up in tax exempt securities in this country. Figure very conservatively on the basis of what was done with the estate of Mrs. Hill by expert handling, and the extra weight of taxation placed in consequence on the shoulders of those whose property enjoys no exemptions becomes appalling. It runs into the hundreds of millions, possibly into the billions annually. It easily makes the difference between a situation in which the nation could handle its financial problems easily, and the present very difficult economic condition.

—*Detroit Free Press.*

Astor Family Seek Shelter in Tax Exempts—Shift Tax Burden to Masses

Astors never sell—this was the metropolitan real estate axiom until the World War began to break up the great old estates. Now the Astors are heavy sellers.

Astor liquidation by all branches of the family since the start of the World War is placed near $45,000,000. This includes much property sold by branches of the famliy not bearing the Astor name.

The Astors have been selling for the same reason that has brought down immense liquidation from all such old holders of realty returning incomes large enough to come under the Federal surtaxes. Most of their holdings had been leased for twenty-year terms at 5 per cent net on a fair average valuation. The heavy surtaxes consumed practically all of this income.

Another reason for such selling, which has been in progress for scores of old estates besides the Astors, has been the rapid increase in State and city taxes. This promises to be accelerated by schemes to buy public utilities for municipal ownership or operation, thus increasing the drain upon taxpayers. Bonds of a tax exempt character are issued to pay for such utilities lying as a lien upon real estate. Large owners see more advantage in selling their realty and putting their cash into such bonds than in holding their realty and paying the taxes which go toward meeting the interest on the high bonds. In this way they shift the burden of public utility upon rentpayers and the taxpayers.

—*New York World.*

SAM, THAT COW HAS EAT 18 BILLION DOLLARS OF STUFF AND HASN'T GIVEN A DROP OF MILK. NO GOOD FARMER KEEPS A COW THAT'S A "BOARDER". GET RID OF HER
TAX-EXEMPT SECURITIES
?OLD BILL REASON
Albert T. Reid

REID IN KANSAS CITY STAR

We Are All Paying Tax-Exempt Bondholder

When Secretary of the Treasury Mellon declares that tax-exempt bonds issued by nation, states and municipalities dry up the sources of industrial capital and place a premium on extravagance in governments, he is stating 100 per cent facts.

When he tells Congress, as he has on several occasions, that tax-exempt securities constitute one of the greatest economical evils the country ever has faced, no man can disprove what he says.

As long as a large percentage of those most able to pay taxes escape all tax burdens through investments in tax-exempt government securities, the balance of the population must pay double taxes to raise needed revenue.

—*Santa Cruz (Cal.) News.*

Young Men Discouraged—Slowing Business—Says Judge Lovett

The greatest damper upon business revival and the greatest menace to the return of prosperity in this country is taxation, according to Judge Robert S. Lovett, chairman of the Union Pacific System, who recently completed an analysis of business conditions following an inspection trip throughout all the Western states. The executive, who is considered one of the foremost economists among the practical leaders of industry, points out that it is largely the surplus wealth of the rich, invested in enterprises carried on by others that affords most employment for labor outside of agriculture. Income surtaxes, however, which take half of the profit a man makes, while leaving him to suffer the loss alone, have taken the heart out of many of the men who have hitherto created the country's business. Judge Lovett says:

"Younger men who have hoped by great energy, new enterprises and initiative to accumulate a fortune see that possibility dwindling as excessive surtaxes become a fixed policy of the government.

"Then, too, the processes of common sense seem to be reversed in our basis of taxation. Instead of a premium on enterprise and industry by a lower tax on earned than invested income, just the opposite is the law. A salary or a profit made by personal effort is taxed the maximum rate under the provision for surtaxes, while capital escapes the tax altogether by being invested in municipal securities. The result is not only a sense of injustice suffered and discouragement in the individual relying upon his own efforts, but an orgy of recklessness and extravagance in municipal expenditures unparalleled in history, to supply bonds for tax-exempt investment of capital. These huge sums are not only going into tax exempt securities, shifting the burden of taxation to industry, but are being withdrawn from investment in industrial enterprises of all sorts that employ labor and in the building of homes for housing the people.

"But that is not all—not by half. Tax-exempt bond issues by village, town, city, county and state, with other extravagances which attend wasteful habits, are increasing state and municipal taxation to an extent that truly is alarming. I read a press dispatch recently wherein one state's taxes had become so high that farmers in many localities could not afford to own their own land and literally were forfeiting it.

"Railroads are feeling it even more heavily and, of course, this means that it must ultimately be borne by the country's business. There are states in the Union where the state and municipal taxation average more than $2,000 per mile for single-track railroads.

"And the end is not yet, for the municipal machines grinding out bonds to be snapped up for tax-exempt investments of money that ought to be employed in private industry still are in full swing and the tax rate is climbing accordingly.

"The country ought to take its bearings before some of its vital interests go on the rocks."

—*Columbus (Ohio) Journal.*

Realtors Are Unanimous

"Put an end to the issuance of the tax-exempt securities by the government, the state and the cities!"

This is the declaration of President Irving B. Hiett of the National Association of Real Estate Boards in annual convention at the Exposition Auditorium.

In the pronouncement against these securities President Hiett, leading realtor of Toledo, and the chief of the real estate men of the nation, voices the unanimous sentiment of the association.

"Fifteen billion dollars' worth of these tax-exempt securities have been issued," said President Hiett, "and it is high time to put a stop to it.

"With this enormous exemption from taxes, the taxes are thrown back on the people to pay and largely upon real estate.

"The property owner and the home builder are the sufferers."

The assembled delegates today were disappointed to learn that Congressman Louis T. McFadden of Pennsylvania, chairman of the banking and currency committee of the House, was unable to attend the convention.

Congressman McFadden was scheduled to deliver an address on "Tax Exempt Securities and Their Effect Upon Real Estate." He is the author of a bill designed to put "finis" on that kind of securities.

The association is on record as strongly opposing tax exemption of this kind, the question having been threshed out at previous conventions. The realtors are directly affected. They assert that the prime reason for the national housing shortage lies in the fact that the wealthy invest a large part of their money in tax exempt paper on which they pay no tax, whereas, if they invested their funds in lands, lots, buildings or factories, they would face heavy tax bills.

They ask no special exemption for themselves, but insist that all investors be treated alike as to the payment of taxes.

—*San Francisco Call.*

WE NEVER WILL REDUCE THAT WAY
INVESTMENT CAPITAL
PUBLIC DEBTS
TAX-FREE INVESTMENT BOND-BONDS
PUBLIC-DEBT CANDY CO.
BESIDES, AFTER FILLING UP ON CHOCOLATE CREAMS YOU CAN'T EXPECT——
INCOME TAXES
NOTHING, THANK YOU, I'M DIETING
INDUSTRIAL INVESTMENTS
TO HAVE MUCH APPETITE FOR SPINACH AND SPARE RIBS
DING IN DES MOINES REGISTER

Shuts off Flow of Money into Business
Deadens Business Initiative—Building Industry Suffers

As the servant of business and trade, the commercial banker cannot but view with grave concern the enormous and rapidly increasing volume of tax exempt securities in this county. The arterial system of business requires a constant infusion of fresh capital without which it becomes sluggish and, if long withheld, ceases to function. In these days, when the whole world is slowly convalescing from the wounds of war, and business is just beginning to discard its crutches and its hospital equipment, we need the quickening influence of ample capital and resources and the initiative and capacity of the best business brains of the country. But the effect of tax exemption is to shut off this flow of capital into business channels, to deaden business initiative.

Atwood, the financial writer, in a recent article aptly says "While the super-tax takes away three-quarters of the income of a man engaged in business of investing in industry, there is a wide-open access to the safe and tempting refuge of tax exempt government, state and municipal bonds."

Dr. Adams, tax expert in the treasury department, states that the volume of exempt securities is sufficient for all wealthy men to invest nearly their entire fortunes. In the case of very large incomes, the temptation of exempt securities is irresistible.

A man with an income of $1,000,000 a year, who pays taxes on taxable securities yielding 2¼ per cent, will have no more left than if he owns a 5¾ per cent exempt security. If he buys a mortgage or a 6 per cent stock, he has left after paying his taxes only 1 or 2 per cent, or, if he is in the million dollar class, he would have to give up part of his principal.

Can we blame the rich man? He is "offered an actual premium to stop working, worrying and risking his money, and to go away and play." There can be no stigma upon the man, rich or poor, who puts his money into exempt securities. Every dollar of the billions of exempt securities has been issued by the Federal, State or municipal governments, and made exempt for the sole purpose of inducing people to purchase them.

It is of special interest to note that the removal of the large investor from the investment field has fallen with special weight upon the building industry and has been an important factor in the recent shortage of houses. Atwood states, on the authority of the comptroller of the Metropolitan Life Insurance Company (said to be the largest lender on mortgages in the world), that one very large holder of mortgages in New York City, said to have owned $15,000,000, had only 1 per cent of his income left after paying his tax in 1918, and has since been paying brokers a commission for relieving him of his mortgages and selling them to savings banks. A witness before a Senate committee recently states that he had been told of a man with $7,000,000 who formerly carried 80 per cent in mortgages, but now has 95 per cent in exempt securities.

The field of public utilities tells a similar story. The president of the American Electric Railway association is quoted as saying that no one with an income above $10,000 can afford to buy even an 8 per cent public utility security in preference to a 5 per cent exempt bond. "Yet the utility industries need $750,000,000 of new money a year, are behind over $1,000,000,000 in improvements, which cannot be made because the money cannot be obtained and they are usually forbidden by state law to make over 8 per cent profits."

In the last few years the personal wealth of the country has so rapidly segregated into the tax-free class, that whereas of those receiving net incomes of $300,000 or more the taxable income of individual taxpayers under the Federal income tax law was $992,000,000 in 1916, the amount decreased to $392,000,000 in 1918. It is not to be supposed that the actual income of these taxpayers had thus decreased in that period. On the contrary, it is a safe conclusion that they had converted their wealth into tax-free securities so rapidly that at a similar rate of conversion they would be "scotfree" of all income tax by 1922.

The wealthy investor receives as much net return from a 5¾ per cent tax exempt bond as from a taxable industrial investment paying over 2¼ per cent. The issuance of tax-exempt securities by the government, state or other political subdivisions, because of the ease in obtaining funds, encourages public debt, public extravagance and public inefficiency in the expenditure of funds so raised. Permit to continue the issuance of tax-exempt bonds encourages all political units issuing the same rapidly to approach their bonding limit, when the burden of taxation thus created may become so heavy as to force confiscation of property.

—*Butte (Nebr.) Gazette.*

MY POCKETS ARE ALL LINED WITH VELVET
MY TOPPER IS MADE OF PURE SILK
WHENEVER I FEEL LIKE I'M THIRSTY
I DRINK ALL THE CREAM OFF THE MILK
TAX EXEMPT INVESTMENTS
?
WHY DON'T YOU GET THAT FAT TELLER ? YOU CAN'T EXPECT ME TO DO ALL THE WORK
THE LITTLE TAX PAYER
Hal Coffman

HAL COFFMAN IN N. Y. EVENING JOURNAL

American Bankers Association Alarmed at Absorption of Funds By No-Tax Bonds

Resolved, that the Administrative Committee of the American Bankers Association note with alarm the absorption of funds available for long-term investment by local improvement, general, municipal, and other tax-exempt securities—and we hereby disapprove of any new National legislation looking to the issue of additional tax-exempt securities.

—*The American Bankers Association.*

Adopted Nov. 21, 1919.

Most Big Incomes Soon Tax-Free

There seems to be no agreement on the amount of municipal, school and other bonds that have been sold on state authority, and therefore are not taxable by the national government. The lowest estimate is $10,000,000,000, while wholly and partially tax-free securities have been put as high as $31,000,000,000. This much is certain, last year the sale of these tax free bonds amounted to $1,000,000,000. That sum is named in the report of the house ways and means committee.

Our forefathers were so fearful that the national government might usurp their liberties, and were so sure that the way of progress lay in making the states practically supreme in everything that they permitted no power to belong to the national government that was not clearly delegated in the constitution, while all the powers not so delegated to the national government were to belong to the states without any question. Inasmuch as it was not specifically granted to the national government to tax bonds issued under state authority, for all these years such bonds have paid no part of the national revenues.

The argument in their favor in the past has been that they brought very cheap money to the succor of needy school districts, drainage districts, and the like. It is the common experience that our municipal and school bonds have sold at the lowest rates, and we have been able to have fine improvements at the lowest possible cost. So long as our national needs were met sufficiently from other sources of revenue there was something to be said in favor of this cheap money for local improvements. But suddenly the war has put our national expenses very high, and the tax on incomes and profits has become so much of a burden that tax-free securities have become a haven of refuge for big fortunes which are now escaping any share in the war costs.

That this amendment should be submitted and ratified nobody can question, as matters are now. Whatever may have been the argument, before taxes on incomes ran so high, there is no argument now when the great incomes are taking shelter and escaping entirely. A few years more of tax-free securities, issued at the rate of a billion a year, will practically relieve the larger incomes from any part of the war burden, and throw it all back onto productive business and the consumer.

—*Des Moines (Iowa) Register.*

People Cheat Themselves

Driving money into tax-exempt securities drives it out of industrial enterprise. What is the inevitable consequence? Business suffers, industry suffers, commerce suffers, everybody suffers.

The president of the University of Illinois, speaking before the St. Louis Chamber of Commerce the other day, put it into a nutshell when he said "too many people think they are gaining when they levy Federal taxes, supposing that someone else pays the tax when, as a matter of fact, they are cheating themselves." Exempt certain securities and the difference must be made up in additional taxes.

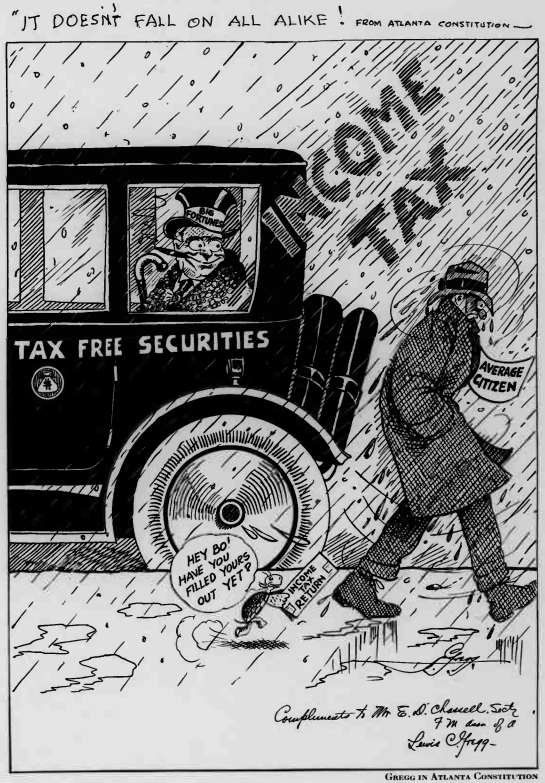
—*St. Louis (Mo.) Times.*

Tax-Free Bonds Lead to Gross Extravagance

The collective intelligence of a people is below the standard in business sense of the successful business men of the country. A good business man does not borrow money because he finds it easy to borrow, but because of a reasonable certainty that a profit can be made by its use, and, under usual circumstances, he never borrows for the purpose of purchasing luxuries. Community intelligence is prone to borrow because it is easy and quite ready to acquire necessary luxuries with the proceeds of community indebtedness. This tendency is sufficiently strong to accomplish all proper public improvements. The additional incentive of tax-free bonds will surely lead to gross extravagance in public expenditures and place undue financial burdens upon municipalities in the future. Capital will naturally seek the haven of tax-free investment rather than the more harassing field of business venture in which profits if gained are liable to heavy tax by the government. Tax-exempt securities, therefore, first, limit the fund available for constructive business enterprises; second, force business to bear too large a part of the burden of public expense; and third induce extravagance in public expenditures.

It will be well for the nation if all profits are made to bear their proportionate share of the public burden and that every inducement to investment in non-profit enterprises and the creation of tax-free securities shall be quickly abrogated.

—*Kansas City (Mo.) Journal.*


"IT DOESN'T FALL ON ALL ALIKE!" FROM ATLANTA CONSTITUTION
INCOME TAX
TAX FREE SECURITIES
BIG FORTUNE
AVERAGE CITIZEN
HEY BO! HAVE YOU FILLED YOURS OUT YET?
INCOME RETURN
Compliments to Mr E. D. Chessell Sec'y
Gregg

GREGG IN ATLANTA CONSTITUTION

Other Sources of Revenue Drying Up Tax-Free Bonds Menace Nation

Hearings before the House Ways and Means Committee on the constitutional amendment proposed by Representative McFadden to make State and municipal bonds subject to taxation have closed. The hearings were attended by farmers, bankers, labor representatives, representatives of public utilities, treasury officials and others. It appeared to be almost the unanimous opinion that future issues of such securities must be subject to taxation. Otherwise all Federal sources of revenue will dry up, business and industry will suffer acutely and practically the entire burden of public taxation will be shifted to incomes from labor and to real estate.

New tax exempt securities in the sum of $1,300,000,000 were issued in 1921.

It is inevitable that if the issuance of tax-free securities by States, counties and municipalities continues the Congress must begin to levy taxes upon occupations and upon the consumption of necessities, such as a tax on coffee, sugar and salt, in order to obtain enough revenue to meet the legitimate requirements of the United States Government.

Practically every farm organization was represented at the hearing and without any exception, they went on record in favor of stopping the issuance of tax-exempt securities. The recent farm conference also went on record against further exemption of income from securities issued by States and municipalities.

—*St. Louis (Mo.) Times.*

Safety Factor in Public Bonds Enough

As it becomes increasingly difficult for private industry to finance itself due to the vast amounts of money that are being absorbed by tax-exempt bonds of the government, states, counties and cities, public demand is more insistent that the tax-exemption privilege be repealed.

Not only does industry suffer but the government is losing millions in taxes which should be paid on income derived from such bonds.

What justice is there in a wealthy man buying $100,000 worth of tax-exempt bonds and thus escape all taxes from the income he receives, when the man who puts $100,000 into an industry which employs many people and involves large risks, must pay every known form of taxation that can be invented.

Government securities are the safest in the world and this fact alone is sufficient inducement for capital to invest, without removing all tax features to the great detriment of the government and industry.

—*Redlands (Cal.) Facts.*

Reduces Public Revenue

Honorable R. C. Leffingwell, former Assistant Secretary of the Treasury, in testifying before a congressional committee, said:—

"I think that the cost to the state and the municipalities is increased rather than diminished by tax exemption. I think that the reason for that is to be found in the hidden factor of the surrendered revenue. Now, anyone who looks at it from the standpoint of the treasury, whether federal, state or municipal, if he wants to be honest with himself, must at once concede that there is no real difference between money paid out of the treasury and money to which the treasury is entitled, but which it foregoes.

"Before the war the tax exemption was of negligible value, because it carried exemption from local taxes and nobody paid anyway, and there were not any federal taxes to speak of. As a result of the war it acquired a wholly artificial market valuation.

"While there is obviously going to be some nominal difference between the interest rates, I think the tendency is to exaggerate that nominal difference, and to my mind actual saving never exists at all, because the addition of the money withheld from the Public Treasury because of tax exemption to the money paid in interest will bring you a total cost greater in the case of tax-exempt bonds than in the case of a taxable bond.

"The point I am trying to make as to the fiscal problem is this, that it is a very dangerous thing in these days when, if you are not fighting wars, you are building roads, building public buildings, opening up rivers and harbors, paying pensions and paying bonuses, when public debts are mounting by leaps and bounds—it is a very reckless thing for any government, federal, state or municipal, to issue bonds which deny that government the power to levy taxes to pay them.

"I think the danger is that both the state and the municipal governments in this country are tending to reach, more rapidly than the federal government, the limit of their taxable resources. We have some very painful illustrations of municipalities particularly which are borrowing money on a basis of overassessment of the values of their properties. I do not think that the margin of safety is as great for many of our state and municipal governments as it is for the government of the United States which, notwithstanding the Great War, has a debt that is small in relation to its resources."

INCOME TAX
DO THE BEST YOU CAN LITTLE FELLER—THERE'S ONLY ROOM IN HERE FOR ME
CYCLONE CELLAR
TAX EXEMPT SECURITIES
THE ORDINARY FAMILY MAN
HAL COFFMAN

COFFMAN IN N. Y. EVENING JOURNAL

Naturally men prefer those EXEMPT bonds, paying no income tax, or other tax, bearing no risk, to ANY investment in industry. No wonder an expert tells you "More money is invested in tax-exempt securities than in the nation's business."

That explains why so many factories are closed—so many men out of work in America.

Why should a man risk his capital hiring men in industry, to make 10 or 15 per cent profit, and give half or three-quarters of it back to the government in income tax—when he can buy perfectly safe bonds, draw his 5 or 6 per cent until the tax storm blows over and pay the government NOT ONE CENT?

—*Chicago American.*

President Deeply Concerned—Making Earnest Fight to Lower Tax Burden

The deep concern that President Harding is showing for the national budget and the reforming of our taxing laws to make them conform to more sound economics and at the same time to meet the budget, indicates clearly that as President, Mr. Harding has a clearer vision than he had as senator, and that he feels the responsibility of his position with more keenness than the average United States senator. He is making an earnest fight for a lowering of the tax burden and he is not blind to the fact that some large interests are at work to shift the burden to the shoulders of the masses.

The tax problem from the federal government down to city government is a serious problem, and the man who fails to see this is blind to conditions. There is a limit to which the taxing powers may go without breaking down under their own weight. President Harding is of the common people and sees that the limit has been reached and that some retrenchments must take place all along the line if this nation is to be saved from a serious revolt on the part of tax payers.

The readiness with which untaxable securities sell and the tardiness with which agricultural lands are selling tells the story. And the fact that an effort is being made by congress to find a way of taxing national, state and municipal bonds would indicate that the danger is plain to that body.

—*Orlando (Fla.) Star.*

Tax Payers Will Have to Make up Deficit Caused by All Tax-Free Bonds Farm Loan Bonds in This Class

Federal Farm Loan bonds drawing 5 per cent interest are offered for sale at a premium of $23.75 on a $1,000 bond.

The income from these bonds is exempt from taxation. That is why they are worth a premium.

Eventually some of this premium will find its way back to borrowers in the form of dividends from the local land banks they are required to join before borrowing.

For farm borrowers this premium is desirable. For urban dwellers it is not. Taxpayers are paying what amounts to a subsidy on farm loans.

Traced through the intricacies of our financial system, the burden to all taxpayers arises from the tax-free features of the Farm Loan bonds. The premium is the bonus investors pay for exemption from the income tax. The $75,000,000 worth of bonds in the present issue will yield $3,750,000 annual interest. It will be tax-free. The Government is likely to lose approximately $1,000,000 in taxes each year as the result of the deal. Investors in those bonds will not pay the tax, so those who do pay taxes will have to make up the deficit.

The same reasoning applies to approximately $25,000,000,000 in Government bonds, also tax-free.

In all fairness, farmers should bear their own interest charges. The Federal Land Bank idea is good, but the subsidy feature growing out of income tax exemption is unfair to taxpayers.

—*New York World.*

Declares Farm Tax Rates Must Have Limit

Declaring that there must be a limit in the tax rate on farms, homes and business properties, L. J. Taber, State Director of Agriculture, speaking before the Ohio Tax Association at Columbus, insisted that without money so invested there can be no business life and progress in the State. Mr. Davis, who was unable to be present, pointed out the danger of "frozen wealth" in tax free securities to which investors are taking to escape oppressive taxes, asserting that it is absolutely robbing the State of money with which to conduct its business.

—*Bellefontaine (O.) Examiner.*

Every Dollar Should Contribute to Support of Government and Country

There should be no tax-exempt securities.

Every dollar should be compelled to contribute its prorate share toward the support of the government and the upbuilding of the country. There should be no favoritism as between legitimate investments, so far as the principle of taxation is concerned.

So long as there is a bomb-proof tax-exempt cellar in which capital may hide away from the tax gatherer, the burden of maintaining the government and of providing adequate public utility facilities for the masses will not be justly and equitably distributed among the people.

—*Atlanta (Ga.) Constitution.*

SEVERAL REASONS WHY THE LITTLE BOY AT THE END OF THE TABLE LOOKS SO THIN AND WAN
INCOME TAX
INDUSTRIAL SECURITIES
TAX FREE SECURITIES
TAX FREE STATE BONDS
TAX FREE U.S. FARM LOAN BANK BONDS
TAX FREE MUNICIPAL IMPROVEMENT BONDS
TAXABLE SECURITY
TAX FREE COUNTY ROAD BONDS
TAX FREE SCHOOL BONDS
TAX FREE U.S GOVERNMENT SECURITIES
J.N. Ding

DING IN DES MOINES REGISTER

The Result of Indulgence—Time to Call a Halt Right Now

RAPID INCREASE IN CITY EXPENSES

Holders of municipal bonds cannot be unconcerned with either the extravagance of the politicians who constitute city governments, or the McFadden tax amendment, which is designed in part to curb this extravagance. Many inquiries are made as to whether the extravagance is an actual fact, and how it is likely to influence the future prices and position of municipal bonds. Until very lately these questions have been unanswerable for lack of data. Now, however, the 1921 reports of the revenues and expenses of quite a number of representative cities are available. These leave no doubt as to the reality of the extravagance:

Governmental Cost Per Capita

City	Year	1915	1918	1921
Bridgeport, Conn.	Mar. 31	$22.90	$42.30	$52.54
Grand Rapids, Mich.	Mar. 31	26.83	26.34	41.57
Des Moines, Iowa	Mar. 31	22.22	37.12	52.97
Reading, Pa.	Jan. 3	17.33*	13.70	18.78
Springfield, Ill.	Feb. 28	12.54	13.43	22.95
Chester, Pa.	Jan. 3	11.73*	12.82	21.56
Davenport, Iowa	Mar. 31	23.43	29.19	36.16
Berkeley, Cal.	June 30	40.49	26.38	48.88
Wheeling, W. Va.	June 30	17.81	18.51	41.19
Lancaster, Pa.	May 31	12.27	14.24	16.77
Huntington, W. Va.	June 30	33.05	18.63	26.76
Fresno, Cal.	June 30	39.19	34.14	71.05
Pasadena, Cal.	June 30	48.88	42.64	73.57
Bay City, Mich.	June 30	15.96	21.50	49.38
New Castle, Pa.	Jan. 3	13.14*	18.26	20.68
Galveston, Texas	June 30	38.19	32.48	33.85
Montgomery, Ala.	June 30	17.59	17.65	35.27
Mount Vernon, N. Y.	Apr. 30	37.02	32.91	52.30
AVERAGE		$25.03	$25.12	$39.79

* means 1914

These cities were not selected, but were taken at random from Census Bureau bulletins. Hence the presumption is that the municipalities of the United States as a whole will, when the figures become available, show like results. In the short space of three years the cost of municipal government, including both running expenses and outlays for improvements, increased in these eighteen cities from an average of $25.12 per capita to $39.79. The increase was nearly 60 per cent., and quite outclasses any previous era of extravagance in the whole history of American municipalities. —*Moody's Investors Service, June 15, 1922.*

Growing Issues of State and Municipal Bonds

The Daily Bond Buyer, a reliable authority, reports the annual issue of tax exempt state and municipal obligations during the last ten years as follows:

1912	$399,046,083	1917	$444,932,848
1913	408,477,702	1918	262,818,844
1914	445,905,510	1919	770,195,248
1915	492,590,441	1920	773,668,986
1916	497,408,751	1921	1,305,868,916

The issue of state and municipal bonds in 1921 was nearly five times that of 1918. The grand total for the months from January to June inclusive, 1922, is $713,070,097, which compares with $508,092,311 for the first half of 1921 and with $348,981,991 for the first half of 1920. Before 1919, the total annual issue never reached $500,000,000.00, but experts now estimate that the annual issue will soon be $2,000,000,000.00 or more if the Constitution is not amended.

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With these facts at hand, showing the property that evades taxation, it is easy to understand why business is dull and why taxes are high on business and industry.

McFADDEN PIONEER AGAINST TAX EXEMPTION

P. & A. PHOTO

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In a speech in Congress Mr. McFadden said, "The real taxpayer is the consumer. Everything he eats, wears, or uses is made higher priced by the increased taxes paid by merchants and manufacturers when they are compelled to carry the tax burdens evaded by owners of tax-free bonds. The man and woman who consume all of their incomes every year pay higher proportionate indirect consumption tax than those who have larger incomes and are thus enabled to save part."

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Large Majority Supports Congressman Green Against Tax-Free Bonds

Ways and Means Committee in recommending Green resolution say:

"A system that will permit one man to have exempt from taxation an income of $25,000 a year from securities which, possibly, he obtained by descent or devise, and which taxes heavily another man who, by his personal exertions, earns the same sum, is unfair and unjust, and when great estates largely consist of tax-free securities which pay no tax whatever the situation affords an opportunity for those who seek to attack our institutions."

Congressman Green, as ranking member, was ably supported by a large majority of the committee favoring the resolution, of which exact text appears on the last page of the cover of this pamphlet.

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Judge Green, able lawyer and economist, will become Chairman of Ways and Means Committee in the next Congress, as the present chairman, Mr. Fordney, is to retire.

INTENTIONAL SECOND EXPOSURE

Holders of municipal bonds cannot be unconcerned with either the extravagance of the politicians who constitute city governments, or the McFadden tax amendment, which is designed in part to curb this extravagance. Many inquiries are made as to whether the extravagance is an actual fact, and how it is likely to influence the future prices and position of municipal bonds. Until very lately these questions have been unanswerable for lack of data. Now, however, the 1921 reports of the revenues and expenses of quite a number of representative cities are available. These leave no doubt as to the reality of the extravagance:

Governmental Cost Per Capita

City	Year	1915	1918	1921
Bridgeport, Conn.	Mar. 31	$22.90	$42.30	$52.54
Grand Rapids, Mich.	Mar. 31	26.83	26.34	41.57
Des Moines, Iowa	Mar. 31	22.22	37.12	52.97
Reading, Pa.	Jan. 3	17.33*	13.70	18.78
Springfield, Ill.	Feb. 28	12.54	13.43	22.95
Chester, Pa.	Jan. 3	11.73*	12.82	21.56
Davenport, Iowa	Mar. 31	23.43	29.19	36.16
Berkeley, Cal.	June 30	40.49	26.38	48.88
Wheeling, W. Va.	June 30	17.81	18.51	41.19
Lancaster, Pa.	May 31	12.27	14.24	16.77
Huntington, W. Va.	June 30	33.05	18.63	26.76
Fresno, Cal.	June 30	39.19	34.14	71.05
Pasadena, Cal.	June 30	48.88	42.64	73.57
Bay City, Mich.	June 30	15.96	21.50	49.38
New Castle, Pa.	Jan. 3	13.14*	18.26	20.68
Galveston, Texas	June 30	38.19	32.48	33.85
Montgomery, Ala.	June 30	17.59	17.65	35.27
Mount Vernon, N. Y.	Apr. 30	37.02	32.91	52.30
AVERAGE		$25.03	$25.12	$39.79

* means 1914

These cities were not selected, but were taken at random from Census Bureau bulletins. Hence the presumption is that the municipalities of the United States as a whole will, when the figures become available, show like results. In the short space of three years the cost of municipal government, including both running expenses and outlays for improvements, increased in these eighteen cities from an average of $25.12 per capita to $39.79. The increase was nearly 60 per cent., and quite outclasses any previous era of extravagance in the whole history of American municipalities. —*Moody's Investors Service, June 15, 1922.*

Growing Issues of State and Municipal Bonds

The Daily Bond Buyer, a reliable authority, reports the annual issue of tax exempt state and municipal obligations during the last ten years as follows:

1912	$399,046,083	1917	$444,932,848
1913	408,477,702	1918	262,818,844
1914	445,905,510	1919	770,195,248
1915	492,590,441	1920	773,663,986
1916	497,403,751	1921	1,305,868,916

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"The chief economic fallacy in tax exemption is in the belief that it saves something—that is confers a benefit on the community or taxpayer. On the contrary, there is good basis for believing that with tax exemption eliminated, the Governments could borrow at approximately the same interest rates as at present. The experience of Canada, where there is practically no tax exemption, shows that public securities enjoy a preferred position in the investment market corresponding to the position of state and municipal bonds in our own market. Canadian provincial and city bonds command a rate of interest from one-half of one per cent to one and one-half per cent lower than utility, industrial and mortgage securities. The same was true of our federal, state and municipal bonds before the graduated income taxes made tax exemption a much sought for factor in United States investments.

"But even granting that the elimination of tax exemption would raise the interest rate even as much as one-half of one per cent—a liberal allowance—that would be a saving in interest of only $5,000,000 per annum on every billion dollars outstanding of tax-exempt bonds, whereas the loss in federal income tax alone, owing to the tax-free status of that same billion dollars of bonds at an average interest rate of 5 per cent, would amount to $25,000,000 if the bonds were in the hands of investors paying surtaxes averaging 50 per cent. In other words, tax exemption under those conditions—a fair assumption—costs five times what it is worth! And that five times is paid by the poor man in every state and city. State rights are not saving him now—they are not a valid argument against the only remedy that is offered."

Higher Street Car Fares—Gas and Electricity

"Public utilities must pay higher interest rates on their bonds because of competition with tax-exempt bonds," said P. H. Gadsden of Philadelphia, at a hearing of the Ways and Means Committee.

Answering Congressman Frear, Mr. Gadsden declared that the consumers pay this extra cost. He said:

"They pay it in the gas rates; they pay it in the street car rates; they pay it in the electric light and power rates, so that it comes right back to the fact that economically you have transferred the burden from the man of large means, thinking that you are getting cheap money, and the fellow who pays for that is the man who goes back and forth twice a day to the factory to work and rides on the street car. He pays 7 cents instead of 6, or he pays $1.25 for his gas instead of $1.23. It all comes out in the washing and it is paid for by the public and is reflected eventually, it must be, in our rates."

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Issued by Farm Mortgage Bankers Association of America
E. D. Chassell, Secretary, 112 West Adams St., Chicago, Ill.

CONGRESSIONAL COMMITTEE

REASONS

FOR THE AMENDMENT

The report of the House Committee on Ways and Means, which recommended the amendment for passage found that the present system should be condemned for the following reasons:

1. **A large portion of property escapes taxation, thereby causing great loss of revenue;**
2. **It violates the ability principle of taxation and unfairly discriminates between taxpayers;**
3. **It impedes private financing;**
4. **It discourages investment in new enterprises;**
5. **It encourages extravagances of governmental agencies;**
6. **It grants private subsidy to certain interests;**
7. **By withdrawing money from private enterprises, it increases the rate of interest required for all enterprises not carried on by the government and thereby adds to the cost of living;**
8. **It creates social unrest; and that the only practical remedy was by constitutional amendment such as is now proposed.**

67TH CONGRESS, 2d Session. } HOUSE OF REPRESENTATIVES. { REPORT No. 969

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67TH CONGRESS, 2d Session. } HOUSE OF REPRESENTATIVES. { REPORT No. 969

THE AMENDMENT

Joint resolution proposing an amendment to the constitution of the United States.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is proposed as an amendment to the Constitution of the United States, which will be valid to all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States:

ARTICLE—

SECTION 1. The United States shall have power to lay and collect taxes on income derived from securities issued, after the ratification of this article, by or under the authority of any State, but without discrimination against income derived from such securities and in favor of income derived from securities issued, after the ratification of this article, by or under the authority of the United States or any other State.

SECTION 2. Each State shall have the power to lay and collect taxes on income derived by its residents from securities issued, after the ratification of this article, by or under the authority of the United States; but without discrimination against income derived from such securities and in favor of income derived from securities issued, after the ratification of this article, by or under the authority of such State.

The foregoing was reported to the House of Representatives for passage by the Committee on Ways and Means May 3, 1922. It is now on the House Calendar and will not be taken up until reached in the regular order unless the Committee on Rules directs earlier consideration.

MSH 22636

END OF
TITLE